

# The Spy Who Was Left Out in the Cold

**A**s the sun was setting in Tokyo, Richard Craig Smith stepped up to a public pay phone, and nervously reached into his jacket pocket and pulled out a handful of coins and a crumpled piece of paper on which a phone number was scrawled.

"Tass," said the voice that answered his call.

Smith took a deep breath and began his pitch. "I'm an American businessman. I have some information that your country may be interested in obtaining."

"Does this have to do with a news story?"

"No. This is much more important. I'm not really interested in any publicity. This is a matter that requires delicate handling."

The Russian paused. The nature of the call caught him off guard. "Perhaps you should then call our embassy. We are only a news organization. Here's the number. Good luck and good-bye."

Smith was pleased. His initial contact had gone as expected.

He checked his watch. He wanted to give the KGB agents who masqueraded as journalists for the Soviet news agency enough time to alert their boss at the embassy that a walk-in was coming. Smith would make his next move in 30 minutes.

Based on his service in military intelligence, Smith knew that Russians, as well as Americans, deeply distrust foreigners who simply stroll into an embassy saying that they have information to sell. More than 90 percent of them turn out to be agents provocateurs: double agents assigned to learn how another country's diplomats handle spies—how they verify information and contact agents, how much they're willing to pay, and what secrets they want to know. Most walk-ins who saunter through the front door are quickly ushered out the back.

By calling Tass first, Smith showed that he knew how the Russians operated and therefore had a background in counterintelligence. He wanted to convince the Russians that he was an American spy and that the KGB couldn't afford to ignore him.

After waiting a half hour, Smith dialed the number the Tass employee had given him. The number was for the Sovi-

before someone answered.

The switchboard operator connected Smith to a Russian agent who clearly had been waiting for the call. Smith identified himself as an American businessman who had contracted a terminal illness. He said he needed money so that his wife and kids would be financially well-off after his death.

"I used to work in the military in Japan," Smith told the Russian. "We should do business."

When the Russian expressed interest, Smith gave him the phone number of a small coffee shop nearby. If the Soviets were interested, Smith said, he'd expect a phone call within a few minutes.

As he walked to the coffee shop on that cool November night, Smith felt certain that he was about to make a lot of money. Perhaps as much as \$10,000 for each meeting. More than enough to make his trip to Japan worthwhile.

He was drinking a cup of coffee when the restaurant's pay phone rang. The Russian's message was brief: he was still waiting for his superiors to approve the plan; Smith should wait in the lobby of a local hotel, where he would be paged at 7:00 P.M. if the Russians wanted to meet him.

Smith paid for his coffee and walked briskly toward the hotel. He was sure that he was about to make a good deal of money spying for the Russians. His mood was upbeat.

**O**n April 11, 1986, four years after his trip to Tokyo, Craig Smith slowly rose from his chair at the defense table and faced the jury in a federal courtroom in Alexandria. His five-day trial on charges of conspiracy, espionage, and passing classified documents to the Russians was about to end.

His arrest in 1984 had been the first in an unprecedented series of espionage indictments brought by the Justice Department. Following Smith's indictment, the government nabbed John Walker, Jr. and his son, Michael Walker, Ronald Pelton, and Larry Chin, all on charges of espionage. In

## Spy vs. Spy

RICHARD CRAIG SMITH  
THOUGHT HE WAS  
A DOUBLE AGENT  
FOR THE CIA.  
BUT WHEN THE FBI  
ARRESTED HIM,  
HE KNEW HE'D BEEN  
DOUBLE-CROSSED.

ets' commercial compound in Tokyo, which is located in an aging neighborhood of small businesses and cramped houses on the western edge of the city. The spies who work there pose as trade experts and union officials. Smith knew that the Soviet agents stationed at the compound were seasoned pros who'd appreciate the importance of his information and pay top dollar for it.

The phone rang for several minutes

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1986 the Walkers were sentenced to lengthy prison terms, Pelton was convicted of selling military secrets to the Soviets, and Chin committed suicide in his Northern Virginia jail cell while awaiting trial.

Prosecutors argued that Smith was no different than Walker, Pelton, or Chin—he had sold out his country for a pocketful of cash. Smith's lawyers didn't deny that their client sold secrets to the Soviets. But they tried to convince the jury that Smith was working for the CIA and that the agency had turned its back on him.

After six hours of deliberation, the jury reached its verdict. The 42-year-old defendant rose, took a deep breath, and faced the jury. The foreman read the verdict: Smith was innocent on all counts.

Smith's wife, Susan, started to sob uncontrollably. The defendant embraced his lawyers. The prosecutor stormed from the courtroom.

The jury's decision was startling. Smith was the first American in 11 years to be acquitted of espionage charges. Since 1975 the government had sent 47 other accused spies to prison.

The facts of the case were as improbable as the jury's verdict. The story of Craig Smith's metamorphosis from a spy in Tokyo to a defendant in a Virginia courtroom unfolds like the Chinese puzzle that's made of an almost endless series of boxes within boxes within boxes. The elements of Smith's puzzle are spies and double agents who engaged in a succession of double crosses and flim-flams against a backdrop of international espionage.

If Craig Smith's story is true, it shows a frightening degree of negligence and incompetence within the CIA. Specifically, it points to the agency's inability to adequately monitor the conduct of its top employees. What other explanation is there for CIA agents who freelanced covert operations against the Russians or for top operatives who used a CIA cover operation as an opportunity to bilk thousands of people out of millions of dollars?

### **I The Man Who Loved Mysteries**

In the early 1960s the CIA built its new headquarters just a few blocks from the high school that Craig Smith was attending. After graduating from high school, Smith got a job as a clerk for the



**Craig Smith began freelancing as a double agent during a business trip to Tokyo in 1981.**

agency. Raised as a devout Mormon (his father is a direct descendant of Hyrum Smith, the elder brother of Joseph Smith, who founded the Mormon church), Smith left the CIA after eight months to join a group of church members on a mission to France.

In 1965 Smith entered Brigham Young University, but he left college two years later when he was drafted. In the service he learned electronics and then transferred to INSCOM, whose 16,000 employees handle the army's most secretive and important strategic intelligence work. On his church mission he had mastered French. At INSCOM he picked up German, Japanese, Turkish, and some Russian.

In 1976, while living in San Francisco, he turned in his sergeant's stripes for a civilian job at INSCOM. Before long Smith had become a top counterintelligence expert. He worked with soldiers who had been approached by the Russians and who were working undercover to study how the KGB spied on the army.

In 1980 Smith's wife announced she'd had enough. She complained that her husband was spending too much time away from his family, and that when he was home he could never talk about his work. Craig Smith loved the intrigue and

mystery; his wife hated it. Reluctantly, he agreed to give it all up and moved the family to Utah.

In Salt Lake City Smith and two of his brothers formed a video company called Timespan. Capitalizing on the Mormons' keen interest in genealogy, the brothers made a fair amount of money by convincing their brethren to videotape elderly relatives to preserve family histories. Soon Timespan was producing commercials. Then Smith came up with the idea of a trade mission to Japan: his firm would produce slick presentations for local companies to attract Japanese capital to the Salt Lake City area. In early 1981, after contacting several state officials, Smith joined a delegation of Utah's business and political leaders on a trip to Japan. The group made some inroads and returned to Japan later that year.

It had been almost two years since Smith had walked away from the spy game. As he strolled off the plane in Tokyo in October, he had no idea he

was about to become a player once again.

### **S A Call to Glory**

Smith was settling down to a quiet night in his Tokyo hotel when he was startled by a knock at his door. Two well-groomed men asked if they could come in. The one who called himself Ken White was about six feet tall, with curly brown hair, in his mid thirties. His companion, who identified himself as Danny Ishida, was a Japanese American in his late twenties.

Since White and Ishida knew the details of his trade mission, Smith assumed that the two were affiliated with the U.S. embassy. After more than an hour of small talk, the conversation turned to more serious matters: the two visitors revealed that they also knew about Smith's background in military intelligence.

What followed was a kind of mating dance. White and Ishida mentioned a few carefully chosen facts to show Smith that they knew the specific tasks he had performed at INSCOM. Smith tried to determine how much they knew: Who did he report to? Where was his boss based? What was his title? White and Ishida had the right answers. Then they grilled Smith with their own set of questions.

Once the two parties had begun to trust one another, White and Ishida brought

operations on these matters—such as American double-agent operations in the Far East, naming the players, their assignments, even their cover names.

"The CIA doesn't carry badges or flash credentials," says Smith. "But it was clear to me that they knew so much about past operations that they could only work for one agency."

The two strangers had a proposition: They wanted Smith to hand-deliver some letters to the mainland. No salary, they said, but the agency would reimburse his expenses.

Smith agreed to do the job.

"It wasn't so much that I missed the intrigue," says Smith. "It's just that I really believe in the work. I'm not a Rambo type, but I guess you could call me a pretty gung-ho person."

During the ensuing months Smith ran a few simple errands for White and Ishida. He made several trips to the West Coast and mailed letters there. Although he wasn't allowed to read the letters, he did see the addresses on the envelopes. Today he remembers only one address, for the Honolulu offices of a company called Bishop Baldwin Rewald Dillingham & Wong. At the time he assumed it was the address of a law firm.

Smith recognized the drill: he was being put through the same tests that he had devised for double agents back at INSCOM to assess how well operatives followed directions.

"It's a way to develop a psychological dependency," Smith says. "Command and response."

White and Ishida never told Smith how he could contact them. He assumed it was because they still didn't trust him completely, or because of the sensitivity of the operation. Each time he went back to Japan, Smith had to wait for the pair to contact him.

After Smith had performed his simple tasks well, the stakes grew higher. White and Ishida told Smith they wanted a letter delivered to the Soviet embassy in San Francisco.

The message informed the Soviets that an American with military intelligence connections had some information to sell. If the Russians were interested, they were told to place birthday messages in the personal columns of three major American newspapers on a specified day. Smith's role was limited to making sure that the Russians got the letter.

After delivering the letter, Smith made additional business trips to Japan but didn't hear from White or Ishida. He assumed that the San Francisco project had been a success and that his services were no longer needed.

But during another trip to Japan in the summer of 1982, White and Ishida unexpectedly reappeared at Smith's door. They said the Soviets had ignored the trial balloon Smith had taken to San Francisco and that they needed a more direct

approach: they wanted someone to walk into the Soviet embassy in Japan and offer to sell secrets, and they wanted Smith to play the role.

White and Ishida proposed selling information that would impress the Soviets but wouldn't affect national security because most of it was 10 years old.

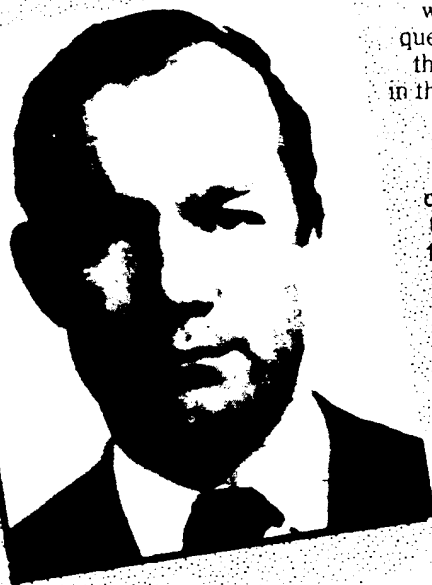
The two agents told Smith how much they needed his cooperation—but even for someone with his zeal it was a tough call.

"Once you walk into the Soviet embassy, you're on their turf," Smith explains. "I knew I'd be subject to their laws. Once in, I might never come out. One mistake and I'd be dead."

Yet Smith couldn't bring himself to say no. Although he had spent years in the intelligence field, he had never personally worked undercover. Instead, he had always been the control agent back at headquarters who laid out the plans and watched them unfold from afar.

"As a case agent you train the guy

### Spy vs. Spy



**Victor Okunev,**  
a KGB agent stationed in Tokyo,  
paid Smith for details about U.S.  
double-agent operations.

and set up the scenario," he says. "but someone else gets to live the excitement."

Finally, Smith had his chance to "live the excitement."

### Conning the KGB

After getting the phone call at the coffee shop, Smith walked to a nearby hotel where he expected the Soviets to page him at 7:00 P.M. When the page failed to occur, Smith's initial rush turned to nervousness. At 7:30 the hotel's operator announced a call for "Mr. David." Smith picked up the phone.

"Come right over," he was told.

At the gate to the Soviet compound,



Smith identified himself and was buzzed in. Surprised by the lack of security—no one accompanied him from the gate to the front door—Smith wandered around the grounds for 15 minutes. He bumped into

a security guard, who steered him back to the lobby and introduced him to his contact, Victor Okunev.

Okunev was short, stocky, had thinning hair, and wore a well-tailored suit.

"He knew exactly why I was there. He took charge immediately," recalls Smith. "He was the consummate professional."

Smith repeated the story he'd outlined on the phone. His name was Walter Hamlin. He lived in Salt Lake City. He needed money fast because he didn't have long to live.

The two men sat beside each other on a couch in a ground-floor foyer. Okunev placed a tape recorder between

them. Within 30 minutes they'd worked out the details for subsequent contacts. Okunev told Smith that he'd be paged two days later in the lobby of the Keio Plaza Hotel—if the Soviets wanted to pursue the relationship.

Okunev drove Smith out of the compound to avoid his being detected by the Japanese police or the American agents who monitored the compound. After 15 minutes of driving through alleys and one-way streets to make sure they weren't being followed (*dry-cleaning* as it's called in the trade), Okunev dropped off Smith near a train station.

Two days later, on November 7, 1982, Smith again was paged in the hotel. He was told to return to the Soviet

compound that evening. When he arrived Smith was led to a conference room on the second floor. Thick mirrors lined the walls of the room; Smith figured that cameras were videotaping the entire session. Okunev had a list of questions on a piece of paper that he placed on a table next to a tray of hors d'oeuvres.

Smith supplied Okunev with details about several U.S. double-agent operations that the Russians already knew about. Even now most of the information about those operations remains classified, except for their code names: Canary

Dance, Lancer Flag, Landscape Breeze, Lariat Toss, and Hole Punch. Since Smith knew the intimate details of those old oper-



ations. Okunev was quickly convinced that the American was legit and could lead them to current U.S. counterintelligence operatives.

Okunev handed Smith a stack of 50 \$100 bills. It wasn't a great deal of money; in fact, it was far less than the \$25,000 Smith had requested. But Smith knew that the Russians tend to be cheap, and that an initial payment of \$5,000 meant they were taking the bait.

"There will be more meetings," Okunev said. "Soon. Perhaps in Vienna."

Smith was ecstatic. Vienna is one of the Soviet's main debriefing centers. The meeting was going even better than he had expected. And then Okunev offered a goodwill gesture that almost ruined everything.

Smith had told the Russian he was suffering from a terminal illness. To Smith's horror, Okunev offered to fly him to Moscow for free medical care. Smith, who was in perfect physical health, danced around the offer as best he could and their meeting ended.

This time Okunev's driver took the wheel. As before, after making sure they weren't being followed, Smith was dropped off by a train station.

Smith's next contact with the Soviets came one month later, on American soil. Okunev had promised to pay Smith more money if he would get in touch with the Soviet consulate in San Francisco on December 18.

This seemed to be more good news for White and Ishida, who had said they wanted to establish contact with the Soviets in both Tokyo and San Francisco, and eventually in Hong Kong.

Smith, again posing as businessman Walter Hamlin, waited for his page in the lobby of the plush St. Francis Hotel.

Although the call came on time, the news was disappointing. "It's too dangerous to pass money on American soil," the caller said. "Go back to Tokyo and meet Okunev on the date already agreed upon." The meeting would be confirmed when Smith dialed the number of Okunev's telephone beeper.

Before his February meeting with the Russian, Smith met with Ishida, who was delighted with the operation's progress. Smith gave his handler the \$5,000 he'd received from Okunev, minus expenses.

In return, Smith was finally told how he could contact White and Ishida. Smith figured that he had gained his handlers' trust and confidence. Ishida showed him a business card for a company called CMI Investments, Incorporated, based in Honolulu. Smith was not allowed to keep the card but was told to memorize the company's name and phone number as well as the name of the agent in charge, Richard Cavanaugh. Smith had no idea whether the name was real or fictitious. If he was ever contacted by someone other than White and Ishida, Smith was told, the new agent would produce the busi-

ness card to prove his CIA affiliation.

In February Smith returned to Japan for his next meeting with Okunev. This time the two met on a Tokyo street corner. They walked around the corner to a car. Okunev opened the door and handed Smith a present.

"Don't you ever wear hats?" he asked Smith. "You should wear a hat. They take pictures. You'll get recognized."

Smith pulled the black lambskin cap around his ears and slunk down in the backseat.

Once inside the compound, Okunev asked Smith about two double agents code-named Royal Miter and Hole Punch. Smith, who had been their case officer, told Okunev in great detail how the United States had tricked Russian agents into believing that U.S. military officers had agreed to sell top army secrets. Smith also told Okunev that while most of his information was dated, he had friends currently working on bases who were interested in passing on solid information for hard cash.

"I basically told them the truth," says Smith. "That I was a U.S. intelligence officer who'd retired in 1980. I also told them, which was a fact, that I still had many contacts in Japan that were associated with intelligence."

To keep Smith's interest, Okunev pulled out a briefcase full of bills. Smith estimates it contained between \$30,000 and \$50,000.

Smith recognized the ploy. Russian defectors come to the United States for ideological reasons. They hate communism, reject the party line, or simply fall in love with the American way of life. On the other hand, U.S. traitors rarely sign up with the Soviets because they've fallen in love with ballerinas or Engel. Instead they are usually already in love—with cash. And usually they're broke.

"The Russians are like pushers," Smith explains. "They give you just enough money to get you hooked, but never enough to satisfy you."

Smith had been told by Ishida and White to find out how much control Okunev had over his slush fund. After Okunev peeled off \$5,000 and handed it to him, Smith told the Russian he wanted an additional \$1,000. Okunev forked over another grand. Since Okunev didn't seem fazed by the request, Smith felt that the Russian might be a lot more impor-

tant than he had first thought.

Okunev again asked about Smith's health. Was he feeling better? Was there hope? Smith couldn't believe he was again being grilled about his phony illness. Trying not to show his panic, Smith told the KGB agent that powerful new medications and experimental treatment programs were working wonders. To his relief, Okunev dropped the subject.

Okunev then gave Smith the details about a trip to Vienna in the spring: an address and phone number, and a procedure for establishing contact. Okunev promised Smith a payoff that was astronomical by Soviet standards: \$125,000. Smith knew a trip to Austria would include a chance to be debriefed by the KGB's best officers. He had conned the Russians beyond his wildest dreams.

Okunev's chauffeur drove the car out of the compound. Smith sat in the back proudly wearing his new hat. When they got to the train station Okunev said, "I'll see you in Austria."

Armed with the \$6,000, Smith couldn't wait to tell White and Ishida that he had Okunev completely fooled.

Smith had good reason to be elated. After all, how could he have known that he was the one being played for a fool?

## **I** The Nightmare Begins

In March 1983 Smith traveled to Honolulu to tell Ken White about his encounter with Okunev the previous month. He also wanted White's permission to meet with the Russians in Austria. To his dismay, White and Ishida failed to show up for their rendezvous. That evening, however, Smith got a phone call from Danny Ishida who told him to be at a nearby park the following afternoon.

When Smith arrived at the park he was greeted by an agent he'd never met before. The man produced a CMI business card that verified his connection to the CIA. "Danny's in Hong Kong," the agent said. "Danny and Ken will be in touch. Go back to Salt Lake and wait."

"But I've got this money from the February meeting. I wrote down the serial numbers. I've got these notes," Smith protested. "You've got to at least take these notes, because I don't want to haul them around."

The two took a taxi to a little restaurant near Honolulu's waterfront. Smith gave the agent his notes along with Okunev's cash. The agent said he was sorry, but he couldn't authorize the meeting in Vienna or allow Smith to accept the payoff of \$125,000. He told Smith to hang tight until the agency contacted him.

Ever the good soldier, Smith followed orders and returned to his home in Utah. His video business was teetering on the brink of bankruptcy. Being out of town so much hadn't helped. Wondering what the hell was going on with White and Ishida wasn't helping either.



**Smith, his wife Susan, and their children are devout Mormons. Mormon communities in Utah and Washington raised money for Smith's bail.**

April rolled around, and the day of the Vienna meeting came and passed with no word from White and Ishida. Smith called the contact number in Hawaii and waited in vain for a call back. Once a week for six weeks he called the Honolulu offices of CMI and left a phone number and a plea for a return call.

The silence was driving Smith crazy. He knew he was supposed to sit on his hands and wait—maybe forever. He also realized that if the Soviets were willing to pay him six figures for a trip to Europe, it could be a tremendous coup for the CIA. In June he decided to go to San Francisco and contact the agency to see what the problem was.

Smith knew that while White and Ishida operated out of Hawaii and Japan, the shots were actually being called in San Francisco. Smith figured he could count on an old friend to help him get in touch with the local office of the CIA. From a pay phone in the lobby of the federal building in San Francisco he called Paul Shields, the head of counterintelligence for the FBI in the Bay area. He was Smith's former bishop in the Mormon church and a close family friend. Shields knew that Smith had worked in intelligence, but the two had never discussed the details of their work.

Smith told Shields that there was a problem with an agency mission, and that

he needed to get in touch with the CIA's San Francisco office through the "back door." He wanted Shields to call the agency so that he wouldn't have to explain to some dim-witted operator why he needed to talk to a supervisor. Smith also knew that it was best if there was no official record of his visit.

Shields asked where he was. "Stay right at that pay phone," he ordered Smith. "An agency guy will call you in the next five minutes. If he doesn't call within 15 minutes, call me back."

A few minutes later the phone rang. The voice at the other end identified himself as a high-ranking CIA official. "What's up?" he asked.

"The name is Craig Smith. I need to be in touch with somebody about some contacts with the Soviets."

"I'll send somebody down to meet you at the federal building," the agent said. "What was your name again and where was this contact?"

"Craig Smith, Japan."

The agent put Smith on hold for several minutes and then got back on the line. Smith could tell he'd moved to another phone in a different room because the sounds of typing and talking had disappeared. Now the line was eerily quiet.

"I'm sending someone down," the official said. "But let me tell you something: you're into something you don't understand and don't know anything about."

"I want to meet with you face to face," said Smith. "It's important I understand what's going on."

"Keep your fucking mouth shut," the voice said. "Don't say anything to anyone, especially to your friends in the FBI. Go home, keep quiet, and we'll be in touch. Just shut the fuck up."

Smith was shocked. There was a cold edge in the voice that frightened him. Something was wrong—he didn't know what, but something was definitely wrong.

During his 13 years in intelligence operations Smith had never heard of one federal agency's not talking to another. Why not be up-front with the FBI? Smith wondered. It didn't make sense. "Just the tenor, the tone in this guy's voice—it was a real vicious warning. I didn't understand it," Smith recalls.

A few minutes later a CIA employee arrived and suggested they talk in the building's cafeteria. Smith replied that it might not be smart to discuss a spy operation within earshot of 100 federal employees and God knows who else. The official insisted: so as discreetly as he could, Smith outlined the Japan operation and his current dilemma.

"To call him a lackey is giving him credit," says Smith. "He was the newest guy in the office, and he was sent down simply to physically identify me. There was no other reason for him to be there."

Confused and unsettled, Smith flew back to Utah and waited for Ishida and White to call. He was still rattled by the warning he'd gotten in San Francisco, but he knew there was nothing he could do. If White and Ishida were able to call, they would. He had no one else to contact.

Meanwhile Smith tried to get on with his life. He returned to college and got a job producing a sports show for the local public television station. His video company had gone down the tubes, forcing him to sell his equipment and some of his household goods. He figured it was going to be a long summer.

One month after his trip to San Francisco Smith was contacted by government agents. But the nature of the call could not have been more surprising. Early one



### Spy vs. Spy

Saturday morning Smith was visited at home by two FBI agents. Smith knew them both. Rick Smith was an old friend from San Francisco; the other, Peter Chase, worked in the FBI's Salt Lake City office. They immediately flashed their badges. Since Smith knew both of them well, it could mean just one thing: he was under investigation.

"When Rick Smith flashed his badge at me," recalls Smith, "it was a very hostile act. I was angry and confused."

He knew instantly that making contact with the FBI and the CIA in San Francisco had been a huge mistake. "I had no way of knowing at that point that everything had not been coordinated with the FBI," Smith explains. "I just assumed that if there was a domestic target [San Francisco] as well as a foreign operation, the FBI would be aware of it."

Smith was interrogated for the next two days, during which he repeatedly insisted, "If you'll get back to the right people in Washington, they'll back me up." But remembering the warning he had received in San Francisco, Smith didn't feel he could be totally open with the FBI agents. "The more we talked," he recalls, "the more convoluted it became."

After the questioning on Saturday Smith couldn't sleep. When he met with the agents again the next morning, he said that the previous night had been the worst in his life. The agents thought Smith meant that he was overwhelmed by guilt brought on by selling out his country. But Smith says his remark described a very different emotion: a numbing awareness that he was being locked out in the cold by his own government.

The FBI agents left on Sunday, but Smith's ordeal was far from over. He began to realize that he was being treated not as an American agent but as a Soviet spy—and he was in deep trouble.

The FBI wanted proof that Smith was a U.S. agent. The CIA had no record that

Smith had ever heard of White or Ishida. Did he have any letters from them? Did he have any receipts for the money he had accepted? They accused Smith of making up the entire story.

Smith kept expecting a phone call from the CIA that would clear up the mess. Smith recalls, "I kept hoping someone would show up and say, 'Yeah, we had a problem. All is forgiven. Everything's cool, but the operation's dead.'"

If explaining his actions to the FBI was tough, explaining the situation to his family was a nightmare. He told his wife that the FBI was questioning him about a spy operation that had ended years earlier. The FBI, he told her, was just trying to pick up some loose ends. For a while she believed him.

After many days of interrogation the FBI resorted to lie-detector tests. Smith easily passed the first series of tests. But as summer turned to fall the FBI employed new tactics. One day Smith's former military counterintelligence boss, Noel Jones, showed up. He yelled at Smith. "He jumped in my face and told me to come clean," Smith remembers. Smith replied that he would, but only under certain conditions.

Smith was put through a second series of polygraph tests. The investigators wanted one of the questions to be: "Have you ever passed secrets to the Soviet Union?" Smith said he wouldn't answer that question unless it was phrased: "Did you ever pass *unauthorized* secrets to the Soviet Union?" Smith passed the polygraph with flying colors. Later Jones said to Smith, "I knew you wouldn't let us down," and gave Smith a warm handshake.

Although Jones seemed convinced of Smith's innocence, the FBI was not persuaded. The investigation heated up.

Smith was given more polygraphs. "They started pushing and manipulating and changing questions, looking for something to squeeze me with," Smith recalls.

Growing more alarmed, Smith decided to confront his wife with the truth. He said he couldn't tell her much, but he was in serious trouble. He had done some work recently for the CIA, but for some reason, the agency was icing him, and now he was the target of an FBI investigation. He told her he'd likely be charged with espionage. Her reaction was not surprising: she was terrified. Would she have to spend the rest of her life alone? What kind of future would their children face?

From July 1983 to April 1984 Smith was questioned by the FBI 19 times. Hard as it may be to believe, Smith refused to talk to a lawyer. He signed 11 "waiver of rights" forms. He took seven lie-detector tests. He kept believing he could talk his way out of the jam. He kept waiting and praying for a CIA cable that would clear him. No such cable arrived.

Finally the FBI brought in its top lie-



detector expert. He walked into the room, stared at Smith, and allegedly bragged. "All right, you've been fucking with my people, but I'm going to get to you."

A lie-detector exam usually starts with a series of fairly innocuous questions that establish norms for truth and falsehood. Instead of following this standard procedure, the expert asked some bizarre and unrelated questions. When he asked, "Are you a faggot?" Smith angrily left the room.

The expert's questioning indicated deception in some of Smith's responses, and the agents thought they had finally nailed him. Smith objected to the line of questioning, and went back to his hotel room where he drafted his own series of questions to clarify the matter. The questions covered his trips to Tokyo and his work for Ishida and White. But when he showed the list to the FBI, the agents rolled it into a ball and tossed it in the trash can.

Fall turned to winter, winter to spring, and the probe dragged on. Finally Smith made a proposition to the FBI's lead agent in the case, Michael Waguespack. "You can put needles in my arms. Give me truth serum. Put me under hypnosis," Smith suggested. "I want a CIA guy here, and a friend of mine who is a forensic psychologist to make sure nothing that comes out of my mouth is manipulated. With those two things, I'll put everything on the table."

Waguespack told Smith he'd check with headquarters. His bosses said no deal.

"I looked him right in the eye," Smith recalls, "and said, 'Mike, it really doesn't matter whether I tell the truth or not, does it, because the Justice Department is going to get me.'"

On April 4, 1984 Smith flew from Utah to Washington for one more meeting with FBI officials. When he walked off the plane at Dulles airport, he was arrested and charged with espionage. That afternoon his hometown paper, the *Seattle Times*, ran the headline: BELLEVUE MAN ARRESTED AS SOVIET SPY. Spy stories make good copy and similar headlines appeared across the country. From coast to coast Craig Smith was branded a traitor.

## A The Search for a Defense

At Smith's arraignment the government came out with both barrels blasting. Assistant U.S. Attorney Joseph Aronica told the court that Smith had sold out his country and then had attempted to save himself by begging the FBI to cut a deal by using him as a double agent. The defendant had surfaced, Aronica said, because he had panicked after realizing that he'd probably been spotted by the Tokyo police on one of his trips to the Russian embassy in Japan. Smith pleaded not guilty to the charges. Bail was set at \$500,000.

Smith's family said little about the case. One week after his arrest, Smith's brother,

Todd, read a prepared statement to the press. "We're not wealthy people, except in friends. We, the Smith family, have every desire to inform the public about the integrity of Richard Craig Smith, and of his deep and abiding loyalty to his country—now, in the past, and in the future."

Although incarcerated in a Northern Virginia jail, Smith refused to discuss his case with his own court-appointed lawyer, William Cummings, a former U.S. attorney for Northern Virginia. Even in the confines of his cell, Smith continued to believe that a phone call from the CIA was imminent and that his ordeal would soon end. An unusually quiet man in the best of times, Smith grew even less communicative. He became restless and depressed. Cummings was losing patience and began to suspect that his client was a nut who didn't understand that he could go to prison for life. Smith's chances of getting out on bail seemed remote; his chances of being acquitted of the charges seemed negligible.

Smith's first break came in the form of a phone call, but not the one he was expecting. A. Brent Carruth, a lawyer practicing in Los Angeles, telephoned Smith's father to express his interest in the case. Carruth had met Smith a few years earlier during a trial that had established Carruth's reputation. Smith had been a minor defense witness in the case of Grant Affleck, who was accused of cheating 650 Mormon families out of \$22 million. It was the most famous criminal trial in Utah's history, and Carruth's flamboyant style had worked wonders with the jury. Local law students were sent to the courtroom to hear his two-hour closing argument, which literally left many jurors in tears. Three days later the jury acquitted Affleck on all counts. Prosecutors called Carruth a "magician." The press dubbed him "the Mormon Melvin Belli."

"I'll fly out at my own expense," Carruth told Smith's father. "And I'll handle the case at a reduced rate." Carruth played up his church connections and expressed his admiration for Smith's straightforward style and easy manner in the Affleck case. Although there was no point in mentioning it, Carruth also felt that a spy trial would be great for his career. A former newspaper reporter, Carruth loved ink and knew that a Washington spy trial would generate reams of copy. Smith's family accepted the offer.

At about the same time Mormon communities in Utah and Washington began to raise money for Smith's bail. One of the leaders in the fundraising effort was Lloyd Cooney, a former Seattle television commentator who had run unsuccessfully for the Senate. Cooney and his wife put up a \$50,000 letter of credit. Cooney, a staunch right-winger, saw no







...together in times of need," he told the *Seattle Times*. Cooney and



Cooney

Smith's release did not alter his relationship with his lawyers. He still refused to help them prepare for trial. "He was so concerned about trying to protect the agency, he didn't tell us anything," Cummings recalls. "And what he did tell us was impossible to believe."

Searching for a strategy, Carruth and Cummings decided that their client should plead insanity. Considering their client's intractable behavior, the idea didn't seem so farfetched. Smith, they would tell the jury, was a former intelligence agent who had gone off half-cocked on a foolish scheme to trick the Soviets. He had never been adequately debriefed by the agency, never had the counseling and therapy he needed, and while under the strain of a collapsing business, he'd simply snapped. Pleading insanity was a risky defense, but with a little luck their client might get only five or 10 years in prison, instead of life. Their next step was to propose the idea to Smith and to two people they hoped would serve as expert witnesses at the trial.

Carruth and Cummings met first with Victor Marchetti, a 14-year veteran of the CIA who has become one of the agency's harshest critics. Marchetti, who wrote the popular book, *The CIA and the Cult of Intelligence*, has turned his knowledge of the spy game into a livelihood, lecturing at colleges and testifying at spy trials. Carruth and Cummings hired Marchetti to analyze their client's story from a professional spy's perspective. Marchetti met with Smith at Marchetti's home in Falls Church. Based on what Carruth had already told him, Marchetti told Smith and his lawyers that he thought the story was phony.

"For a guy who had been playing games with the Soviets for 12 years, I don't think it washes," Marchetti told them at the outset of their meeting. Ninety minutes later Marchetti had heard nothing that changed his mind. His evaluation of Smith was devastating.

"He's either the dumbest intelligence officer who's ever lived, or he's a liar, traitor, and spy," Marchetti told the lawyers. He added that there was no more than a 2 percent chance that Smith had been snookered by renegade CIA agents. And,

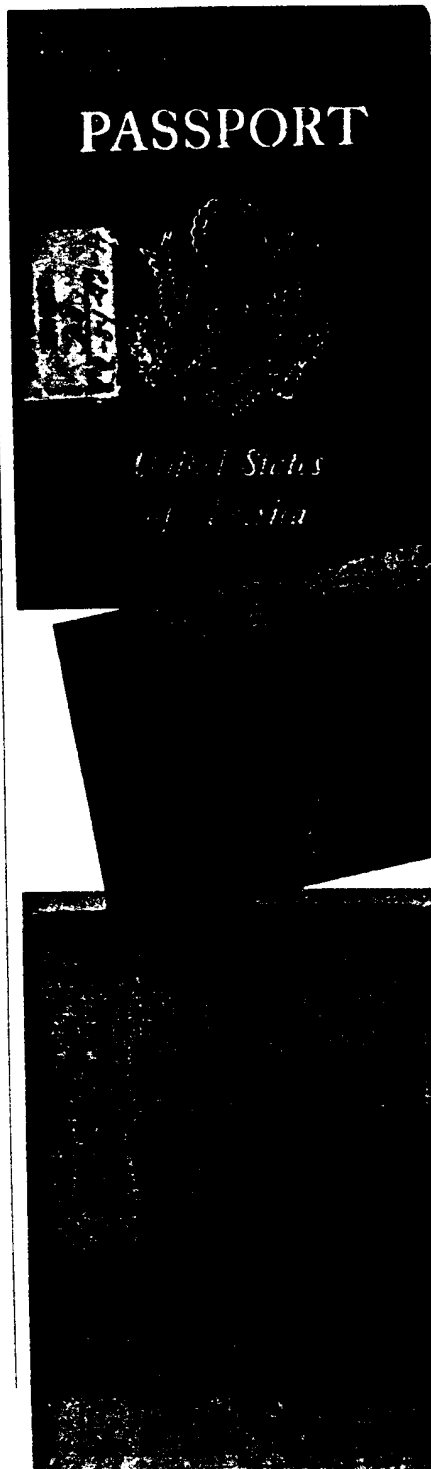
**A. Brent Carruth (left), a flamboyant trial attorney who has been dubbed "the Mormon Melvin Belli," agreed to represent Smith but advised his client to plead insanity.**

party, CMI, or its president, Richard Carruth, really existed. Marchetti scorned the idea that a simple business card would convince a CIA agent that he was dealing with an official agency operation.

Smith's tale was patently unbelievable to anyone who had ever worked in counterintelligence, Marchetti concluded. For someone who had concocted so many cover stories, Marchetti mused, Smith should have come up with a much better one than this.

"We marched right through the details of the alibi and I just kept saying, 'This is impossible. You don't do these things.

## Spy vs. Spy



...would do was give me this sweet boy look with which he tried to say, 'I'm so innocent.' I didn't buy it for a minute. I still don't buy it."

The meetings with Marchetti further convinced Carruth and Cummings that the insanity plea was their best tactic. Besides, they were becoming increasingly convinced that Smith had lost touch with reality. The lawyers sought to bolster their theory with psychological evidence.

On June 6, 1984 Sherry Skidmore, a respected psychologist from Los Angeles, flew to Alexandria to meet with Smith and, it was hoped, to give the defense team the proof they needed. Most forensic psychologists have reputations as hired guns. Some work for the defense, others for the prosecution—pick the type you need. But Skidmore had strict standards. If her research did not support a lawyer's case, she walked away.

That evening Cummings, Smith, and Skidmore met at the lawyer's Loudoun County farm. On the street outside a half-dozen FBI agents stood guard.

"Don't be a smart ass," Skidmore warned Smith. "Don't try and psych the tests out. Don't lie. Don't be defensive."

For the next four days Skidmore administered a battery of psychological tests. She had Smith stare at inkblots, grilled him about his ethical values, questioned him about his family life, and analyzed his personality.

On Sunday morning Smith went to church with his brother. Skidmore had a cup of coffee with Cummings and dropped a bombshell. In her opinion Smith was telling the truth. "He's as straight as they come," she said. "Too straight. It would be better for him if he'd loosen up a bit." Cummings couldn't believe what he was hearing.

"I'm telling you, believe your client," she continued. "Now go find the evidence to support his story."

Cummings believed her, but Carruth did not.

The next day Skidmore flew back to California and met with Carruth. "He's open, honest, nondeceptive," she said. "Emotionally stable. Very moral. He's for real."

"He's living in fantasyland. He's flipped out," Carruth insisted.

Piece by piece, Skidmore pulled her test results from her briefcase. Carruth attacked each document. "You make this crap up," he said. "You can make these things say anything."

Skidmore patiently refuted each of his arguments. They parried back and forth for hours. By the end of their meeting Carruth's office was buried beneath charts, graphs, and interview notes. ▶

At two in the morning, after five hours of work, Carruth eased in. With tears in his eyes, he told Skidmore, "If you believe him, well then so do I."

Armed with Skidmore's results, Carruth and Cummings told Smith they had to know the whole story. With FBI agents constantly following them, the three had no privacy. Smith was under court order to stay in the Washington area. Smith's father solved the problem by obtaining the keys to the Mormon church in Northern Virginia.

With Smith's brother standing guard outside the chapel door, the three went over the case once again. "This is the most ridiculous story I've ever heard," Carruth said despairingly. "Even if we believe you, nobody else will." Carruth told Smith his own father saw the advantage of the diminished-capacity plea.

"If we lose, you're going to jail for life.

### **Spy vs. Spy**

You've got less than a one in a thousand chance of winning," Cummings said.

"No way," Smith replied. "If the jury won't believe the truth, then baloney. And if you won't find the evidence I know is there, then you're not representing me."

"Where can we look?" the two pleaded.

Smith finally gave in. "Call my wife in Seattle," he said, adding that she could locate a phone number he had hidden in his bedroom. The next move would be to have Peter Silvain, a Washington psychologist and defense expert, meet

**The other member of Smith's defense team was a court-appointed lawyer, William Cummings. He told Smith, "You've got less than a one in a thousand chance of winning."**

her at the airport and bring the number to Cummings's offices.

"I'll show Peter how to decode it. I won't touch it," Smith said. "Then have Peter go down to the Library of Congress and see where it leads him. Find out whose number that is, and you'll find that it's CIA."

At the Library of Congress, Silvain had no trouble locating the Honolulu phone number. The number was one of many belonging to an investment firm called Bishop Baldwin Rewald Dillingham & Wong. Smith quickly remembered seeing the name on one of the first envelopes he had hand-carried to the mainland for White and Ishida.

Up to this point the defense team thought Craig Smith's story was difficult to believe. But it paled in comparison to the story they were about to hear concerning the CIA's ties to Bishop Baldwin.





**O** The Hawaiian Connection  
 On July 29, 1983 Ronald Rewald checked into the posh Waikiki Sheraton Hotel under an assumed name and settled down to watch the local newscast. He was hardly a disinterested viewer; in fact, he had been told that he was going to be the lead story. Rewald's investment firm was being investigated by Hawaii's commerce and consumer affairs department because two of his employees were alleging that the company's recent million-dollar study of Far East economics was a scam. Rewald watched the newscast and realized that his life was ruined. Within days or weeks, he suspected, his financial empire would collapse. "I felt shamed and humiliated," Rewald said later. Minutes after the story aired, Rewald walked into the bathroom, slit his wrists, and lay down to die. The next day his company—Bishop Baldwin Rewald Dillingham & Wong—closed its doors for good.

Rewald survived his suicide attempt, which was terrific news for law enforcement agents in Hawaii. Investigators at the IRS, the SEC, and at various state agencies all had an interest in seeing that Rewald lived. As he lay in his hospital bed, authorities prepared to file charges against him for nearly 100 separate crimes. The agencies squabbled over who'd get first crack at putting Rewald behind bars.

**Carruth and Cummings hired psychologist Sherry Skidmore to determine whether Smith was insane. Her report stunned the lawyers: "Believe your client. Now find the evidence to support his story."**

Until this disaster struck, Rewald seemed to lead a charmed life. Well-dressed and tan, Rewald exuded success and glamour. He shared his huge mansion in Honolulu with his pretty wife, five children, and an antique car collection. He didn't just play polo; he owned the polo club. He told friends that he was a former professional football player and that he held a law degree from Marquette University. His pals were local celebrities such as Jack Lord, the star of television's "Hawaii Five-0."

But to investigators Rewald was a slick con man who had sweet-talked widows out of their life savings. In Wisconsin he'd pleaded guilty to state securities violations for selling sporting goods franchises without registration and had filed

for bankruptcy in Milwaukee. According to federal investigators, nearly all of the \$22 million that people invested in Bishop Baldwin went directly into Rewald's pockets.

Even the company's name was a sham. Rewald and one other partner, Henry Wong, ran the firm. The other names—Bishop, Baldwin, and Dillingham—were audaciously lifted from the ranks of Hawaii's upper crust. If he'd been operating in Washington, Rewald probably would have chosen Lodge, Rockefeller, and Kennedy.

In time the rest of Rewald's résumé unraveled. During his trial it was revealed that he had never attended Marquette nor had he ever played pro football. And only a few initial investors made money from Bishop Baldwin. Those lucky few were paid with the later investments of others. Rewald's operation appeared to be a classic Ponzi scheme.

Eventually Rewald confessed everything to the press, and his story was nothing short of fantastic. He had done nothing wrong, he said. In fact, he'd been victimized too. The real culprit, he claimed, was none other than the CIA. In a sworn affidavit Rewald stated, "I am, and for the past five years have been, a covert agent for the Central Intelligence Agency.... Additionally, there are 10 employees in Bishop Baldwin who are full-time CIA covert agents." Rewald con-



tended that Bishop Baldwin was never meant to be a legitimate investment company; it was an agency front that secretly funneled money and arms to foreign governments and provided cover to CIA agents operating in the Pacific region. The agency, Rewald told reporters, commingled private investment funds with CIA accounts to make it impossible to trace bribes and secret programs. The problem was that IRS investigators had walked into his office at the wrong moment: the CIA had just withdrawn most of the firm's assets, which it had planned to redeposit later.

According to Rewald's affidavit, "In 1980 the CIA began using the investment accounts as a vehicle in which to place funds to... be used in foreign operations overseas... to shelter money of high-placed foreign diplomats and businessmen." Rewald told his lawyers and just about anyone else who'd listen that he had spied on Argentina during the Falklands War and had helped funnel CIA money to people attempting to rescue MIAs in Laos.

The government vociferously denied Rewald's allegations. Robert Laprade, an attorney representing the CIA, swore in an affidavit that "the CIA did not cause Bishop Baldwin to be created nor has the agency at any time owned, operated, controlled, or invested in BBRD&W." Officially, the agency had admitted early on that Rewald's firm had indeed provided minor support for its agents. Rewald received about \$3,000 from the CIA in exchange for providing its agents with phones and a telex machine that were used to verify their cover stories.

While the government was denying Rewald's charges, it also took steps that seemed to lend a great deal of credence to Rewald's claims. Laprade convinced a federal court to seal Bishop Baldwin's files for national security reasons. Laprade also won a gag order forbidding "all parties, their attorneys, and their agents from communicating to any person relating to matters pertaining to the Central Intelligence Agency."

Brent Carruth flew to Hawaii in the summer of 1984 to ask Rewald about how the phone number belonging to CMI and Richard Cavannaugh was tied in to Bishop Baldwin. Their meeting was strained. Rewald was expecting to be charged any day with embezzling \$5 million to \$6 million. Claims against his company totaled \$8 million. But while Rewald couldn't explain to anyone's satisfaction where the millions had gone, he was able to give Smith's defense team important information.

Rewald was not at all what Carruth had expected. Most financial con artists

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seem to be cut from the same cloth: iron handshakes, easy with jokes—they're the kind of people who like to be the center of attention at a cocktail party. But none of those characteristics fit Rewald. He was just as likely to glance at the floor as to look you in the eye. He wasn't polished and charming. Rewald grew up on Milwaukee's Polish south side, in a neighborhood of blue-collar workers, taverns, and bowling alleys. His folks were bakers. With his slight paunch, gentle smile, and midwestern nasal drawl, Rewald's style was pure Huck Finn.

Rewald told Carruth that eight CIA

try to force the government to drop its case by asking for numerous classified documents, some only tangentially important to the trial. Often the prosecution would simply walk away from the case.

Under the new act the trial judge would review classified materials in chambers and then rule on their admissibility. The defense could get what it really needed, and prosecutors could prevent the release of top secret information irrelevant to the trial.

On July 7, 1984, just weeks before Smith's case was set to go to trial, Carruth and Cummings got exciting news. Judge Richard Williams told them they could use classified information about Bishop Baldwin in Smith's defense. While they



Information crucial to Smith's case was obtained when millionaire playboy Ronald Rewald (left, with his attorney), was charged with operating a multimillion-dollar investment scam. Rewald claimed he was a covert agent for the CIA.

agents had worked out of Rewald's firm, with their secret identities tied to four cover operations. CMI was the oldest. Rewald said he had first used the name Consolidated Mutual Investments for his Wisconsin consulting firm back in 1977. The CIA co-opted the name in May 1979 to cover one of its key agents in the Pacific.

"What was his cover name?" asked Carruth.

"Richard Cavannaugh," said Rewald. It was the name that had appeared on the CMI business card that White and Ishida had shown Smith.

Bingo. The defense team had its first piece of evidence confirming Smith's story.

Cummings and Carruth knew the CIA was not about to hand over its files on Cavannaugh. They would have to force the disclosure in court by testing a new federal law called the Classified Information Procedures Act. The government had passed the law to prevent a common defense practice known in the intelligence business as *graymail*. Frequently a defendant charged with espionage would

couldn't use the actual documents, the defense attorneys could use the information they contained. Outraged, the government delayed the trial and appealed the ruling. Smith got a stay of execution. More important, the defense had more time to prepare its case and to learn a great deal about CMI and a CIA covert agent named Richard Cavannaugh.

**A** The British Consul in Honolulu. According to CIA documents submitted in the Rewald case, Cavannaugh's real name was Charles Richardson. He was born in 1935 and had joined the CIA in 1962. He was a foreign studies major in college and was fluent in Chinese.

For a time Richardson apparently used the cover name James Bishop—as in Bishop Baldwin Rewald Dillingham & Wong—for his Hawaiian operation. But to distance himself from the phony company, he took a new name and began working (on paper) for a new subsidiary.

A declassified cable sent in May 1979 outlines the agency's plan for Rewald to provide a cover for Cavannaugh. "Foreign Resources Division requests... Mr.

Ronald Rewald, chairman of the board, CMI... to negotiate cover arrangements for Charles Richardson in the alias of Richard P. Cavannaugh... Foreign Resources Division feels this proposal is operationally sound and should provide solid cover for extended operational use."

The telex continues: "The cover should permit Mr. Richardson to portray himself as... a representative or the senior officer or owner of a substantial company."

An August 1979 CIA cable provides more details. "Cavannaugh can be described as a principal in a major Hawaiian and West Coast investment firm. The partners in the firm are some of the oldest, wealthiest, and most influential families in Hawaii. As a result, the company and these families are greatly concerned with matters relating to the political and financial affairs of the state of Hawaii, Asia, and other locations where they have interests."

The investment firm was, of course, Bishop Baldwin, and its subsidiary was CMI. Richardson was based on the West Coast and operated out of CMI's offices in Sherman Oaks, California. He also spent a great deal of time in San Francisco, which confirmed another part of Smith's story. White and Ishida had made repeated references to their orders originating in the Bay area.

Rewald also said he got his marching orders from San Francisco. "[Richardson] was my boss. He ran the show," Rewald told Carruth and Cummings. When Richardson went to Hawaii, Rewald served as his escort. Patricia Gallo, the former receptionist at Bishop Baldwin, said that when Richardson arrived in Honolulu, the whole office seemed on edge. "I remember people were all excited when he came to the office," she said. "Obviously, he was a VIP, a very big VIP."

Rewald, who was usually blasé when describing the agency and its agents, seemed awed by Richardson. Carruth and Cummings sensed that Rewald was frightened, perhaps even terrified, of his boss.

The lawyers' next move, of course, was to question Richardson on what he knew about Smith's operation, about White and Ishida, and about what had gone wrong with the double-agent operation. The defense team sent a subpoena to the CIA in July 1984 asking them to serve it on Richardson. But the lawyers were out of luck: Richardson had left the government that very month. Nobody knew where he was. Carruth and Cummings were stunned. First White and Ishida had vanished, and now Richardson was gone.

**I**n September 1984 a federal grand jury in Honolulu charged Rewald with 98 crimes, including 38 counts of securities fraud, 37 counts of mail fraud, four counts of perjury, and four counts of income tax evasion.

On August 7, 1985 Rewald's trial opened

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to a standing-room-only crowd. It was the biggest media event in Hawaii since Pearl Harbor.

Smith and his attorneys followed the case intently. Rewald's acquittal would boost their morale and help their case; his conviction would mean that Smith might also have trouble convincing a jury he'd been left out in the cold. To Smith's dismay, the prosecution blew Rewald out of the courtroom.

For 10 weeks the government paraded a seemingly endless stream of Rewald's victims into court. Theresa Black, whose husband and two sons had died in a plane crash, told the jury how she had entrusted Rewald with the proceeds of her husband's life insurance policy. A blind man from California testified that Rewald had stolen his life savings. A cancer victim said the same thing. The jury and the spectators were hooked.

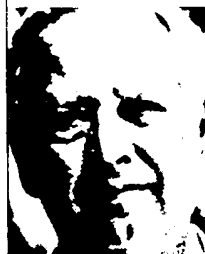
Next the prosecutors introduced a little show biz. Jack Lord, the former star of "Hawaii Five-0," testified that Rewald had befriended him at a party where the two were photographed together. Rewald then used the photos to impress prospective investors.



Lord

Not surprisingly, the case had a sex scandal, too. The secretary in the health spa next door to Bishop Baldwin testified that Rewald had paid for her apartment in return for sex. A college student said she had dished out for tuition. Other women said they had had sex with him in exchange for expensive presents. And when former Playboy bunny Cynthia Brooke testified, you couldn't get into the courtroom with a shoehorn. She said that she hadn't had sex with Rewald, but that Rewald's firm had bilked her out of \$8,000.

There was one more group of victims: former CIA agents. "I don't want to appear a patsy," said Jack Kindschi, a retired CIA station chief, "but I dropped my guard. I was raised in the small farm town of Platteville, Wisconsin, where no one locked their doors."



Kindschi

With tears in his eyes, Kindschi told the jury he had invested his 86-year-old mother's life savings in Rewald's investment firm and lost it all. He, too, had been suckered out of a good chunk of change. The Kindschi family was taken for \$300,000. Kindschi said he had admired Rewald as an "all-American boy." The 20-year veteran of the CIA said he

had become so close to the businessman's five children that "they looked upon us as grandparents."

"Mr. Kindschi was taken in hook, line, and sinker," said prosecutor John Peyton. "In fact, the CIA became Rewald's victim as well." Apparently Rewald had deceived three station chiefs in Honolulu and embarrassed the agency with his outrageous claims.

Rewald's case had been effectively lost a year earlier when federal judge Martin Pence said that Rewald's ties to the CIA had nothing to do with the scam he was charged with operating. Pence said that he "saw nothing in the documents to indicate that any of Mr. Rewald's involvement with intelligence activities explains any of the financial actions."

Indeed, there was plenty of information to prove Bishop Baldwin was intimately involved with the CIA and the intelligence community. The government's portrayal of Rewald as a wide-eyed farm-boy-turned-con-artist simply didn't explain how Rewald got so many prominent people to invest in his firm. Those investors included several high-ranking military officials such as Lieutenant General Arnold Braswell, the former commander of the Pacific air forces, and Lieutenant General Eugene Forrester, a former commanding general based in Honolulu. In addition, 19 CIA covert employees operated through Rewald's shell companies.

When high-ranking VIPs came to Hawaii, Rewald invariably met with them. In 1981 he was one of several guests who joined George Bush for a sunset sailboat cruise. When Stansfield Turner was the director of the CIA, he used Rewald's car and driver during trips to the island.

There's more. The CIA tried to stop the IRS from investigating Rewald. A declassified CIA cable dated January 1983 was sent from Langley to Honolulu: "Headquarters had contacted IRS. Headquarters to ask... delay investigation of tax matter."

A second cable provided Rewald with a cover story to fool IRS investigators and his own accountant. The lengthy memo begins with a phony history: "Established three companies in question for undisclosed foreign clients who needed U.S. government base for certain unspecified business operations. Thus Rewald is strictly a nominee in all matters... and has no financial interest in the entities."

Since the judge ruled that Rewald's financial scams had nothing to do with his ties to the intelligence community, however, no evidence concerning the CIA was introduced during his trial. The jury never heard anything about the CIA's attempts to block the IRS's probe of Rewald. Nor did the jurors hear about the agency's role in setting up and using Bishop Baldwin or about Rewald's ties to top CIA officials. As a result, the jury's decision was easy. After 11 weeks of testi-

mony, it took only two days to find him guilty on all charges. On December 9, 1985 Rewald was sentenced to 80 years in prison.

### **T** Smith Hits Bottom

The decision in the Rewald case alarmed Smith and his attorneys. Their concern deepened when an appeals court severely restricted Smith's use of classified CIA files. The defense team would be able to use less than 1 percent of the classified files they had reviewed. The prosecution had scored a huge victory.

Throughout the two years he awaited his trial, Smith had shown no signs of depression or anxiety. To friends and relatives he always seemed optimistic. He was not particularly introspective; he didn't feel sorry for himself. Sherry Skidmore had once described him as being too tightly wound for his own good. Smith wouldn't argue the point.

With so much time and energy committed to preparing his case, and so much uncertainty about his future, Smith had been unable to handle the challenging jobs he preferred. Still, whether driving a delivery truck or writing copy at an ad agency, Smith had thrown himself into his work with characteristic vigor and

### **Spy vs. Spy**

abandon. The appeals court decision, however, was too much even for him. He plunged into a deep funk.

"If the government's got that much pull, then the deck's stacked against me," Smith told his wife. For the first time during his ordeal and for one of the first times in his life, Smith was utterly depressed. After the couple spent a long, somber afternoon together, he realized that his discouragement was destroying his wife.

"I just decided I had to buck up," Smith recalls. "After that I never really let much else out. I just had to keep smiling, even when I didn't feel much like smiling."

### **O** A Traitor Goes on Trial

On April 7, 1986 Smith's espionage trial got under way in Alexandria. Two years had passed since his arrest; nearly four years had passed since his first meeting with White and Ishida. In contrast to the circus atmosphere of Rewald's trial, Smith's case received little attention. Since his indictment John Walker had pleaded guilty, Arthur Walker had been convicted, Larry Chin had been indicted, Ronald Pelton was awaiting trial, and Vitaly Yurchenko had defected and then redefected. The country was simply bored with spy cases.

Prosecutor Joseph Aronica summed up

the government's case in one sentence: "It was a straight trade: money for information." Aronica said Smith fit the classic pattern of recent traitors. Desperate and near bankruptcy, Smith cashed in on the one salable item he had left: his knowledge of U.S. double-agent operations, which he sold during three meetings with the KGB for \$11,000.

"Is this man a spy?" Carruth asked the jury in his opening statement. "Yes, he is—for the United States of America, and he has been for several years." Smith was no traitor; he was an American hero. "He roped in a big one for the United States," Carruth said. "And gave up chicken feed."

The prosecution's first witness was FBI agent Richard Smith. According to the agent's testimony, Craig Smith said during questioning that he had given KGB officer Victor Okunev a business card and little else—and received \$11,000 in return. "I told him I didn't believe him," said Richard Smith. "I told him it was ridiculous."

The next day FBI agent Michael Waguespack took the stand. Waguespack told the jury that Smith had described himself as a Walter Mitty who had modeled his spy mission against the Russians on the plot of a novel he was writing.

For more than a year, the agent said, Smith had steadfastly stuck to his story that he had told the Russians very little. However, Waguespack added, Smith finally

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broke down after he was told that a double agent, code-named Royal Miter, had been contacted by the Soviets after three years of silence. When Smith realized that he'd put U.S. agents in danger, said Waguespack, he began to tell the truth.

"He said he thought about what he did, that people could get hurt, and that he wanted to cooperate," said Waguespack. According to the counterintelligence expert, Smith said he'd become physically ill after meeting with Okunev, breaking out in a rash and failing to sleep at night.

Nothing upset Smith more during the trial than the prosecution's continual insinuations that he had put American double agents in danger.

"They made it seem like there were agents out there running through the forests of East Europe dodging bullets," says Smith. Actually, he adds, most of the double-agent operations he knew about had never come to fruition or had long since been terminated. Moreover, Royal Miter was teaching school in the United States when he was recontacted by his handlers. Hardly the deadly rendezvous under a streetlight that the government had conjured up in the jurors' minds.

Trying to make the best of a bad situation, FBI agents said they had tried to cash in on Smith's act of treachery by laying a trap for the Russians. Using procedures outlined by Smith, they had sent a letter to the Soviet consulate. Following



the letter's instructions, exactly one month later the Soviets had paged Walter Hamlin (Smith's cover name) in the lobby of the St. Francis Hotel.

FBI agent Lawrence Williams was waiting for the call. The Russian had said his government was willing to deal on "your terms" but only in Tokyo. When Williams said he didn't have any money, the caller told him he'd be reimbursed for his expenses. Williams told him they had a deal. "Okay," said the Soviet agent. "Beautiful." The jury heard the whole conversation on tape. It was devastating testimony.

The last major prosecution witness was Noel Jones, Smith's former supervisor at INSCOM. Jones said Smith was the case officer or alternate case officer for 21 double agents. All were army employees who pretended to be working for the Soviet Union while really working for the United States. If Smith had indeed blown their cover, the results could be disastrous.

Now it was the defense's turn.

Despite the appellate court's decision to limit the use of classified material,

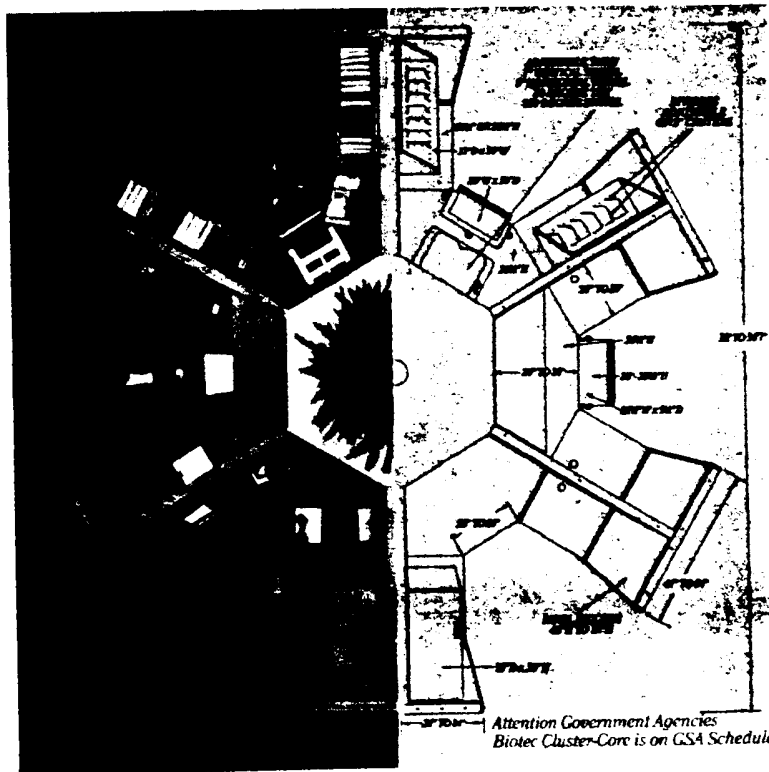
there was still plenty of evidence. A great deal of CIA cable traffic and internal memoranda had been declassified. "I don't think the government realized what they had declassified," said Cummings, "and what they did declassify crucified Richardson."

In January 1983, at about the same time Rewald's world started to go to hell, so did Richardson's. He was worried about the IRS's investigation of Rewald. If Bishop Baldwin was exposed, it would blow his Far East cover—not a very pleasant thought for a covert CIA agent. More important, the IRS's probe and Rewald's request for help from headquarters had triggered an internal CIA investigation.

Richardson had good reason to be anxious. Not only had he been a longtime booster of Rewald's company, he had also been an investor. Richardson had violated strict CIA guidelines that forbid an agency employee to invest in a cover company, or a *proprietary* as they're known in the trade. Between June 1980 and December 1982 Richardson had deposited a total of \$143,141 in Bishop Baldwin. He'd even talked four other CIA covert agents into investing in Rewald's firm. He was in deep trouble, and as a 22-year veteran he knew it.

By spring it was obvious that Rewald was ruined. The inside word was that the agency was disavowing all knowledge of any substantial ties to Bishop Baldwin. Ordinary investors had no way of know-

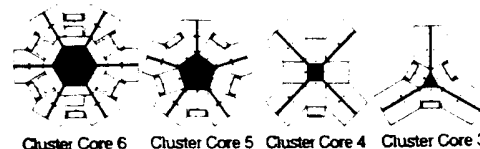
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## Spy vs. Spy

ing that the investment firm was about to collapse. But CIA insiders knew, and they moved quickly and quietly.

In late April Richardson withdrew his remaining money from the firm and closed out his account, which was worth about \$80,000. He also managed to withdraw \$44,000 that didn't belong to him.

On June 6, 1983 he wrote Rewald a letter. "Dear Ron," the letter begins, "Thanks for getting everything closed out for me. Unfortunately, from my view, but it at least clears the air with my home office who are now seemingly satisfied that there is no 'apparent' conflict of interest." The letter continues: "They were not arguing that there was any 'real' conflict of interest but must be simon pure ... I assume your 'tax problem' with CMI has also all been taken care of."

The day before Richardson wrote that letter, Smith had walked into the federal building in San Francisco and talked to the local head of the CIA on the phone. Smith had been shocked when the unknown speaker had told him that "you're into something you don't understand and don't know anything about" and to keep his mouth shut. At the time Smith had no idea to whom he was talking. But CIA phone records identified the voice as Charles Richardson's.

"If Craig had kept his mouth shut and stayed in Utah, Richardson could have reorganized things," says Carruth. "He would have called six months later and said, 'You don't need to know what happened, but we're starting up again.' Craig ruined the whole plan by contacting the agency. And that put Richardson in a precarious position because at that time he was lying to CIA investigators."

Richardson's attempts to cover up the fiasco in Hawaii didn't work. In August 1983 the CIA canned him and disciplined the other agents who had invested in Rewald's firm.

(The CIA, by the way, had lied to the court about Richardson's dismissal when it claimed that he was no longer working for the agency and had disappeared.)

On the eve of the trial Smith's attorneys filed a motion to force the government to locate Richardson and to make him testify. The motion reads, in part: "The defendant has reason to believe Richardson was sent into deep cover, perhaps demoted, but certainly reassigned. Further, the defendant has reason to believe the government still has control over Cavanaugh [Richardson's cover name] and his activities."

That same day the government, which for two years claimed Richardson was missing, miraculously produced his address and phone number. "They knew where he was all along," says Cummings. "He was getting a government pension."

But Cummings's joy at finally locat-

ing the mysterious CIA agent was quickly dampened. Because of the appellate court's ruling, the trial judge could not let the defense question Richardson about the Hawaiian operation or his ties to Rewald. After Judge Williams had listed all the restrictions regarding Richardson's testimony, Cummings and Carruth realized he'd be a worthless witness. Smith would have to save himself.

"Mr. Smith, are you a spy?" asked Carruth.

"I have been, yes," said Smith.

"For whom?"

"For the United States of America," Smith answered. "I have never been a spy for the Soviet Union, but I sold secrets to the Soviets as part of another mission."

For the next several hours Smith patiently explained his actions.

Carruth attacked two prosecution theories. The government claimed that Smith had turned himself in because he was afraid he'd been spotted in the Russian compound by Japanese police. Smith told the court that he never wore a disguise even though he knew he was being photographed, and he never tried to dodge the Japanese agents who were following him to his meetings with Okunev.

The government also asserted that Smith sold secrets because he needed cash to save his failing business. Smith did indeed accept \$11,000 from the Russians. But if greed was his motive, he was pretty

inept. He presented receipts for his trips to Japan and Hawaii that totaled \$19,000. Smith was so straight, Carruth told the jury, he'd even reported the payoffs on his tax returns.

When Smith was on the stand, the jurors listened intently. One member often leaned forward, trying to catch every word. More than once a juror nodded his head in agreement.

"Craig was very credible, very believable. His performance and demeanor were excellent," Cummings says. The defense team clearly was pleased. Additional defense witnesses followed. Skidmore explained why her psychological study of Smith indicated that he was telling the truth. Rewald testified that his company had been paid by the CIA to provide cover stories for its agents and to take messages for them. Rewald's former receptionist told the jury that while she didn't remember Smith's phone calls, she did remember messages for someone named Ken White. "That name was very familiar to me because I had an old friend by that name. So it always stuck in my mind," she said.

**Spy vs. Spy**

The defense rested its case. So did the prosecution. Then Judge Williams decided to call a bench witness. To the prosecution's astonishment, Williams called Charles Richardson to the stand.

To the defense the surprise was both exhilarating and frightening. "Rewald was terrified of Richardson," recalls Smith. "He said Richardson was the most brilliant and most dangerous person he'd ever met. If he comes to trial, he'll kill you."

If convictions were based on appearance alone, Richardson could have sent Smith to prison for life. He was handsome, stylishly dressed, and had a golden tan and just the right touch of gray at the temples. Richardson was about to kill somebody all right. He murdered the prosecution.

Under oath, Richardson first denied, then conceded that he'd been forced out of the CIA for what he termed "exercising poor judgment" in his dealings with Rewald. Richardson admitted he'd lied to the CIA's investigators at the exact time Smith's operation was falling apart. But Richardson continually insisted he had no idea who Smith was prior to the phone call he received from him in San Francisco in April 1983.

During his brief questioning Richardson's problem wasn't so much what he said as the way he said it.

"He was his own worst enemy," says Cummings. "He was a phony from the get go. He was very smug."

Carruth adds, "Judge Williams said, in essence, 'I'm not going to let you go far enough to injure national security. But I'm going to let you go far enough to show that Richardson is scum.'"

In his closing argument Carruth nailed Richardson and portrayed his client as an innocent victim of a renegade CIA operation. "This was a double-agent operation all the way," said Carruth. "It's impossible for Mr. Smith to invent with this degree of detail this story. Somebody is lying. It's either Smith or Richardson. Which one is it?"

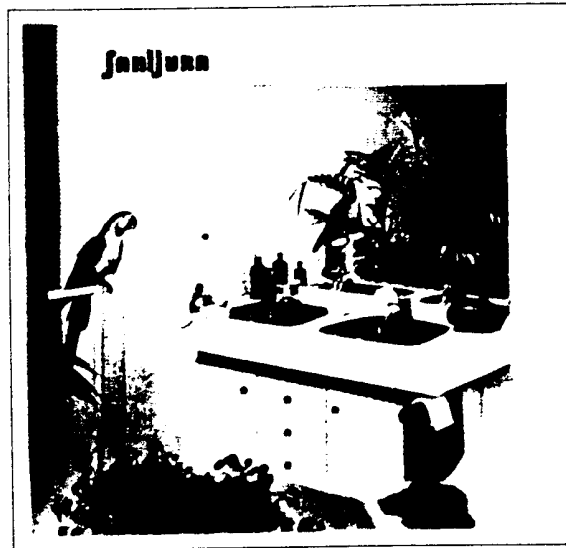
Aronica attacked that scenario in

his closing argument. Smith "was desperate financially and decided to meet with the Soviets and sell what he had—his honor, his oath, and classified information," said Aronica. "The idea that the CIA

would have him work as a double agent and that another agency of the government would bring him here to prosecute is absurd." Aronica turned to the jury and asked, "Do you really think your government would do something like that?"

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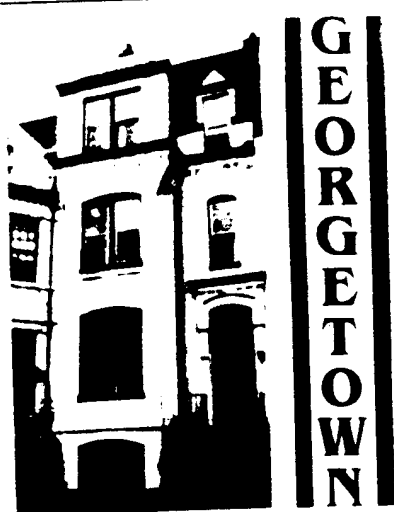
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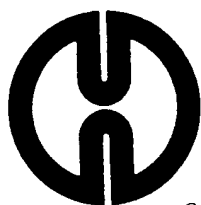
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## Spy vs. Spy

yer learns is never to ask a question for which he has no answer. It was the wrong question to ask people who'd lived through Watergate.

Six hours later the jury acquitted Craig Smith on all counts. In the back of the courtroom, Susan Smith and other relatives wept. FBI agent Michael Wague-spak shook Smith's hand. Prosecutor Joseph Aronica stormed out of the courtroom.

Outside the courthouse Smith held an impromptu news conference. "My life's back," he said. "I can get back to my family and just go home. I'm a free man tonight." Asked what he was thinking of throughout the trial, Smith said, "Why can't we just tell the jury what we know the truth is and get this thing done with?"

For Carruth and Cummings, it was an extremely satisfying verdict. "We were confident he was not guilty—confident we had as good a case as we could prepare," Cummings recalls. "I don't think anybody had any confidence he was going to get off."

What went on in the jury room during deliberations? Was the jury convinced Smith was completely innocent? Or was it simply a matter of reasonable doubt? Whose testimony decided the case? We'll never know. After the trial the jurors agreed never to talk to the press.

But in a posttrial interview the jury foreman told Carruth that he had believed Smith from the start. Both sides were persuasive, the juror said. "But the clincher," he noted, "was when that slime Richardson took the stand. He was the most rotten son of a bitch I've ever seen."

### **M** The View from a Cell

Meanwhile Ronald Rewald still has 79 more years to serve in the federal prison on Terminal Island, California. He will be eligible for parole in 29 years. After Smith's trial ended, I visited Rewald. (Coincidentally, Terminal Island received a new inmate that day: Richard Miller, who is the first FBI agent ever convicted of espionage.)

Rewald, who had not talked to a reporter since his conviction, was delighted by Smith's acquittal because he believed the verdict might improve his chances for a new trial. "I knew he was innocent," Rewald said. "I was bitter that the government was doing that to him. I knew from classified materials that Smith was everything he said he was. He had deep phone numbers nobody could know about."

Smith believes the same about Rewald. "There's absolutely no doubt in my mind Rewald worked at the behest of the CIA," says Smith. "The CIA was intimately involved in the management of Bishop Baldwin."

Rewald currently spends a lot of time in the prison library drafting his appeal.

His lawyer is Brent Carruth.

"I'm 100 percent convinced he'll get a new trial," says Carruth. "Acquittal may be another question."

If you believe Rewald's version of the story, the CIA was tied up in a sophisticated financial con run by one of its employees who had a history of violating securities laws. In addition, some of its agents illegally attempted to make money on the side. Not a very reassuring picture, is it?

But if you believe the government's account of this whole mess, the consequences are even more frightening. Namely, the CIA's top covert agents were conned by a modern-day Huck Finn from the backwoods of the Midwest. Makes you wonder how well the KGB's trained agents have done against Langley's finest.

"Twenty years from now," says Carruth, "when this whole area's declassified, even if Ron Rewald is a crook, we're going to find his version of the story is a whole lot closer to the truth than the CIA's."

### **F** Tight Lips and Loose Ends

Former CIA agent Charles Richardson now lives in Phoenix and works for a research company. Last year the bankruptcy trustee in the Rewald case filed a complaint for \$44,000 against him, claiming he illegally took money from Bishop Baldwin. Richardson says he's broke and can't pay the fine.

Richardson lives on the fringes of a well-to-do subdivision on the eastern edge of Phoenix. On a hill just above his house sits the summer mansion of the Wrigley chewing gum family. In a brief interview conducted in his doorway, Richardson said he couldn't talk about Craig Smith's case.

"If it had turned out differently, I'd say quite a bit. But I don't want to open myself up to any lawsuits," he said. Richardson still denies ever meeting Smith or knowing about the Tokyo operation. He says he has never heard of anyone named White or Ishida and that he never threatened Smith during a telephone conversation. He also refuses to discuss persistent rumors that he's a consultant for the CIA.

Through a small crack in the door, it was easy to see how Rewald had formed his impressions of Richardson. I had caught him unprepared for our interview that Saturday afternoon. He was dressed in a bathrobe, but it looked as if it had been pressed. His hair was perfectly in place. His tan was dark and even. He tried to make his smile warm, but his eyes were ice cold.

"I've thought a lot about talking but I just can't," he added and politely closed the door.

There are a host of lingering questions in this tale, and as I drove out of Phoenix, I wondered how many could

**Spy vs. Spy**

be answered only by Richardson himself.

No one else connected with the government's case will talk, either. The CIA, the FBI, and the Justice Department all declined repeated requests for interviews for this story, as did many key individuals such as Assistant U.S. Attorney Joe Anonica and FBI agent Michael Waguespack. But if it's possible to interpret their refusals to comment, they seem to share an overwhelming sense that justice was not served — a sense that Smith is indeed a traitor who happened to have good lawyers, a great yarn, and a gullible jury.

To be sure, there are major gaps in Craig Smith's story. No one has ever found White or Ishida. There are no CIA records of any attempt to infiltrate the Russian embassy in Japan, no records of Smith's ever being paid by the CIA, no records of the CIA's receiving any money from Smith's meetings with the KGB. When Smith worked in military intelligence, his job was to develop cover stories for the spies he supervised. Who could possibly be better qualified than Smith to fabricate a story to save himself from spending the next 50 years in prison?

About the best "official" slant one can get is from George Carver, a former high-ranking CIA official. Carver, who now works at the Center for Strategic Studies, says he was stunned by the outcome of Smith's trial.


"Many people try to use the defense: 'Gee, I was actually cooperating with all kinds of folks,'" says Carver. "Actually it's a pretty standard defense. Somehow he was the first one in 47 cases to make the jury believe it."

Given the murky world of espionage, we'll probably never know the truth. In a business where the ability to lie is an asset, it may be impossible ever to tell the good guys from the bad guys.

Meanwhile Craig Smith has moved to Los Angeles, where he is working as an investigator for Brent Carruth. In fact, he may do some legwork on Rewald's case.

Smith remains convinced that the CIA's brass did not hang him out to dry. He contends headquarters has no records of the Tokyo operation. Richardson, he says, set up the operation, and only planned to notify his bosses in Washington if everything worked out. The collapse of Bishop Baldwin had ruined his plans.

Smith says he is not bitter, and that he remains a firm believer in the intelligence community that turned on him. Would Smith do it again, if asked?

"It would create a real dilemma," Smith says with a smile and a shrug. "I'd have a real serious problem saying no. I know how important it is. And even after all of this, I'm still a hard-core, redneck believer." 

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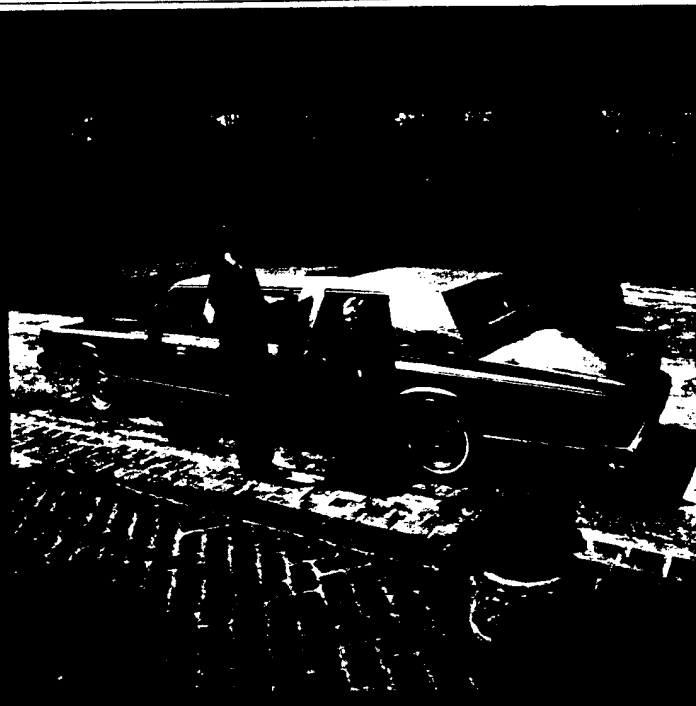
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